SB 320

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 320 (Senator Kasemeyer)
Budget and Taxation

Pension Systems - Eligibility Service

This pension bill reduces the minimum requirement to earn a year of eligibility service from 700 hours to 500 hours for the Teachers' Pension System (TPS), the Employees' Pension System (EPS), the Law Enforcement Officers' Pension System (LEOPS), and the Local Fire and Police System (LFPS). The bill takes effect July 1, 1998.

Fiscal Summary

State Effect: Increase in employer pension contributions of $1.3 million beginning in FY 2000, and increasing 5% per year thereafter based on actuarial assumptions.

(in dollars)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
All Revenues	$0	$0	$0	$0	$0
All Expenditures	0	1,302,000	1,367,000	1,435,000	1,507,000
Net Effect	$0	($1,302,000)	($1,367,000)	($1,435,000)	($1,507,000)

Note: ( ) - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: For employers participating in the State pension system, increase in employer pension contributions of $173,000 beginning in FY 2000, and increasing 5% per year thereafter based on actuarial assumptions.

Small Business Effect: None.

Fiscal Analysis

Background: Currently, a member of the TPS, the EPS, the LEOPS, and the LFPS receives a year of eligibility service only if the member works 700 hours in a fiscal year (except in the first and last year of employment when eligibility service is prorated). And, by law, members who work less than 700 hours do not receive eligibility or creditable service. Creditable service is used to determine the dollar amount of a member's benefit and is based on actual hours worked.

All members of LEOPS and LFPS and the vast majority of members of TPS and EPS work at least 700 hours in a fiscal year. There is a small percentage of employees who work less than 700 hours, such as cafeteria workers, school aides, and bus drivers. For example, a cafeteria worker working three hours a day for 190 days only accrues 520 hours (3 x 190). These part-time employees are permanent employees and by law, members of the pension systems. The State and participating employers pay the appropriate employer contribution rate for these employees, even though they do not work 700 hours and therefore do not accrue eligibility service and do not qualify for a retirement benefit. They may, in certain circumstances, be entitled to a death benefit or accidental disability benefits.

State Expenditures: This proposal reduces the number of hours needed to receive a year of eligibility service in a fiscal year from 700 hours to 500 hours. Thus, many members who work on a limited basis, and for whom employer contributions are being paid today, could earn a pension benefit. The State Retirement Agency advises that there are approximately 1,673 permanent employees who currently work less than 700 hours but at least 500 hours in a fiscal year, broken out as follows:

- 651 TPS members;
- 762 EPS members employed by the State; and
- 250 EPS members employed by participating employers.

Currently, these employees do not qualify for a pension benefit but, as stated above, the participating employer is paying the employer contribution on these employees. Since these employees do not qualify for a pension benefit, there is an actuarial savings which is passed on to the State and participating employers as a slight reduction to their employer contribution rate. There would be a corresponding increase in system costs to pay out future benefits for these employees. Though these employees would earn full eligibility service under the bill, they would only earn creditable service (upon which the pension benefit is calculated) based on the fraction of a full-time year that they worked.

Based on the information above, the State's actuary was able to offer an informal estimate of the additional liabilities and annual amortization payments resulting from the proposal. For State-funded members of the EPS and TPS, the proposal would add approximately $22.1 million in additional liabilities to the State system. Amortizing these additional liabilities over 20 years (through the year 2020) results in a first-year amortization payment of $1,302,000 in fiscal 2000, increasing 5% per year thereafter based on actuarial assumptions.

Local Expenditures: For municipal members of the EPS, the proposal would add approximately $2.9 million in additional liabilities to the municipal pool of the State system. Amortizing these additional liabilities over 20 years (through the year 2020) results in a first-year amortization payment of $173,000 in fiscal 2000, increasing 5% per year thereafter based on actuarial assumptions. The actuary was unable to allocate these additional costs to individual participating governments.

Information Source(s): State Retirement Agency; Milliman & Robertson, Inc.; Department of Legislative Services

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lnc

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